

# NB Votes for Meaningful Change

Disruptive Forces in Investing

March 9, 2021

- Anu Rajakumar:** Environmental, social and governance topics are deeply embedded in the investment philosophy here at Neuberger Berman. Back in the summer of 2020, Chairman and CEO, George Walker, and Head of ESG Investing, Jonathan Bailey, joined our show to discuss an advanced proxy voting initiative where we as a firm were able to voice our views on pressing ESG issues ahead of company annual and special meetings to provide transparency into our expectations on best ESG practices. With an overall positive response to last year's season, our ESG Investing Team decided to further develop this initiative; by taking it up a notch and looking at how we can deepen our engagement with companies. My name is Anu Rajakumar, and I'm delighted to be joined but Caitlin McSherry, Director of Investment Stewardship, to share that journey with us, while walking through some of the enhancements her team intend to bring to this year's proxy season, and more. Caitlin, thank you so much for joining me.
- Caitlin McSherry:** It's great to be here. Thanks for having me.
- Anu:** So, Caitlin, just to give our listeners some context, what exactly do you manage as a Director of Investment Stewardship? And how does proxy voting play a part in your role?
- Caitlin:** So in my role, I lead the firm's work on engagement and corporate governance across the investment platform. And rather than having a separate team solely responsible for these areas, we've chosen to embed activities such as engagement and proxy voting within our investment teams, as we believe doing so is the most effective way to integrate ESG factors into the investment process. So I really work alongside our investment team to determine things like which companies we should be engaging with, which topics we should be raising, how we should vote on a given proposal, and what other methods of engagement we should be leveraging, such as pre-disclosing our vote intention ahead of an annual meeting, or joining a collaborative engagement initiative. And a core part of my role is overseeing the firm's proxy voting pipelines. And we believe that proxy voting is an integral aspect of investment management, and an important component of our approach to creating shareholder value, as it provides a direct mechanism for us to voice our support as well as our concerns on various matters.
- Anu:** Absolutely. Very important. So now the NB Votes initiative was introduced last year, and it was really a unique approach to engagement. So, Caitlin, how will NB Votes evolve this year in 2021, and how are you broadening the scope of the initiative to make it more meaningful to stakeholders?
- Caitlin:** Sure. Great question. So, as you mentioned earlier, in 2020 we launched a new initiative called NB25. Now we're referring to it as NB Votes moving forward. Um, and in the initiative, we publish our vote intentions in advance of select shareholder meetings. We chose to focus the initiative on a minimum of 25 companies where our clients have significant economic exposure, and we also sought to include a broad range of proposals in the initiative, with a balance of votes in support of and against the recommendations of management. So for 2021 we're seeking to include more votes in the initiative which will cover a wider range of topics, from things like gender and racial pay parity to human rights, to contested elections, all with the goal of providing insights into our expectations and decision making. We'll continue to include our rationale for our vote decisions in our disclosure to provide insight into what our expectations are on a given topic, and to demonstrate the judgment that goes into the voting process. We'll also be seeking to include more votes from international markets as proxy voting topics as well as market corporate governance expectations tend to vary quite a bit from market to market. And lastly, we'll be able to showcase our continued engagement efforts with companies we included in the initiative in 2020.
- Anu:** Sure. Now, at a firm like Neuberger Berman we obviously have, you know, thousands of holdings. So, I would just love for you to explain – how do you pick companies that we engage with? And what's the process that the team uses to figure out how we're going to choose these votes that we're going to be pre-disclosing?
- Caitlin:** So, at Neuberger, we believe engaging with issuers is an essential part of being a long-term active owner, and that engaging with issuers on ESG topics can improve their performance and reduce their risk profile. So, it truly is a core part of our investment process, and over the course of 2020 our investment teams across equity and fixed income held over 3,500

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engagements with companies we invest in on behalf of our clients. And importantly, as an active manager we're really able to hone in on the issues that are financially material to a given company. So for example, the events of 2020 have really highlighted the benefits of active engagement with issuers, as I think ESG topics were really brought to the forefront for companies and investors alike. And while all companies were likely impacted, the way in which risks and opportunities present themselves differ from industry to industry, and even company to company. And our research teams and investment teams responded to the need for active engagement during this unprecedented period, and engaged with issuers on pressing topics, such as the importance of workplace safety, diversity and inclusion, supply chain management, and the alignment of capital allocation with long-term business strategy.

**Anu:** Great, thank you very much for that. And it's also helpful – you know, you touched on kind of how our engagement in Neuberger is a little bit differentiated, because of course engagement efforts I think we're seeing a little bit kind of across the board from various asset managers. But, Caitlin, you know, I'm sure that not all of our votes in 2020 had the outcome that we hoped they would. Love for you to just share an example from last year where the outcome was maybe in opposition of our position, and what, if any, consequences there are when that happens.

**Caitlin:** Sure. So, I'll touch upon two examples here where we've seen varying degrees of responsiveness from companies after our vote. So, in 2020 we chose to support a shareholder proposal at Exxon Mobil asking the company to provide more reporting on how it's managing certain environmental risks. And since the vote, Exxon has disclosed Scope 3 emissions from customer use of its products like gasoline and jet fuel. And while this is an improvement, Exxon continues to lag peers in terms of robust climate related disclosures. So, we continue to evaluate their progress and engage with them on a regular ongoing basis. In another example, we chose to support a shareholder proposal to enhance diversity reporting at Marriott International. And although the company has taken various steps to promote diversity in recent years, we supported the proposal to signal our expectation of further disclosures, and the need to better understand the company's workforce demographics and approach to human capital management. And while the proposal didn't receive majority support, the company has since provided more disclosure on the racial diversity of its US employees. So, we're happy to see the progress there.

**Anu:** Terrific. Caitlin, you have mentioned a couple of times, you know, diversity and inclusion, human capital management. You know, I'd be remiss if I didn't ask about proposals that focus on women and gender equality, particularly as, you know, yesterday it was International Women's Day. Would love for you to just expand on that a little bit.

**Caitlin:** Yeah, so in the past few years we've seen more and more proposals focusing on these important topics. So there are proposals that we see that focus on disclosure of diversity itself at a company, and we expect we'll continue to see these proposals at company meetings in 2021, and anticipate that they'll focus not only on board level diversity but diversity throughout the entire workforce. Additionally, we think they'll focus not just on gender diversity, but call for disclosure on types of diversity beyond just gender, whether it be race, ethnicity, age, and so on, which aligns with Neuberger's expectations of companies as well. Another increasingly common proposal is on pay equity, which focuses on the concept of equal pay for equal work. And with these proposals we seek to understand if companies have first conducted an assessment of its pay practices, and then we strive to understand what the scope of the assessment was. For example, was it focused on just gender diversity? Did it also include race? Were all employees included, or did it say only focus on US-based employees? In addition to the scope of the assessment, we also strive to understand the findings of the assessment, as well as the remediation steps that are being taken when applicable.

**Anu:** Now, Caitlin, have you found that the proxy voting process differs from other countries outside the US, or do you generally find that it's fairly similar across the board globally? And any examples you can share there?

**Caitlin:** The process certainly differs from market to market, as well as market corporate governance expectations tend to vary as well. So, for example, shareholder proposals in certain markets tend to be binding rather than advisory like they are in the US, while some markets don't even have mechanisms to allow shareholder proposals onto a ballot. Even the types of votes differ. So, for example, certain markets give shareholders not one but two votes on executive compensation, one that's ex-ante and one that's ex-post. It's also important to note that corporate governance practices are very market-specific, and often driven by a given market's corporate governance code. So, for example, in Japan, where the presence of practices such as cross shareholding and having poison pills are key concerns that that we hone in on, we've outlined specific expectations for companies within that market. So, we've crafted our voting guidelines to take into consideration these types of market nuances, and we intend to leverage our NB Votes initiative to showcase the role they play in our vote decision making process.

**Anu:** And Caitlin, what are some of the ESG topics that the firm's going to be focusing on in-in this upcoming proxy voting season?

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- Caitlin:** Yeah, I'll highlight a few here. So certainly equity, inclusion and diversity, as I mentioned earlier, the focus here will be much broader than just gender diversity at the board level. Another focus area would be executive compensation. With many companies making adjustments to their executive compensation plans midyear in response to pandemic impacts, we expect to engage on this topic heavily to determine if certain changes and award levels were warranted. Climate change would be another focus area. It continued to be a focus from both companies and investors even throughout the pandemic, and there's been a host of companies making net zero commitments in recent months. So, we'll be engaging on these commitments how progress is being reported, and how oversight and accountability is structured. And lastly, I would highlight political spending. Since the storming of the Capitol in January and dissenting votes on the certification of the presidential election results, many companies have suspended contributions from their political action committees, also known as PACs, to all or select politicians, or they've announced their intention to review their political spending practices entirely. [00:11:27] So we'll be engaging in the coming months and years with companies to understand the scopes of these changes and encouraging them to provide adequate disclosure on them.
- Anu:** Terrific. Caitlin, I do actually have one other question for you. I would love to know where you think this area will develop or how you think it'll develop in the next five years or so. If we were having this conversation in 2026, how do you think some of these practices will have evolved and changed?
- Caitlin:** Yeah, I think it's a great question, and an exciting one I certainly think it's terrific how more and more investors are recognizing the importance of engagement. From our perspective at Neuberger, we're continuously thinking about how we can be most effective in our active engagement efforts, both in terms of the impact we're having and the transparency to our clients on these efforts. And I think really honing in on efforts like NB Votes and continuing to drive innovation through our stewardship activities will really help in this manner. And rather than simply reporting out on the number of engagements we've held in a given year, can we provide more examples of what those conversations looked like, and, more importantly, what the outcomes were? Now, engagement change doesn't happen overnight, so I think it's important to showcase the year over year progress companies are making, and continue to be clear with them on our expectations, and really be a partner to companies as they continue to improve their practices.
- Anu:** Fantastic. Well, thank you, Caitlin, for those insights. Uh, we're excited to see what will come of the upcoming voting season. More details will be on our website, for those who are interested, so stay tuned for more information there. Thanks again, Caitlin, for joining me.
- Caitlin:** Thanks so much for having me.
- Anu:** And to our listeners, if you've enjoyed this episode of Disruptive Forces, I encourage you to subscribe to the show via Apple Podcast and Google Podcast, or Spotify, or you can visit our website, [www.nb.com/disruptiveforces](http://www.nb.com/disruptiveforces), for previous episodes as well as more information about our firm and offerings.

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